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EAST ASIA REVIEW

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This is the second in a series of articles examining the way Japanese think about defense. It will show how Japan's security policy is designed to achieve a number of well-defined policy objectives,

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the Japanese have generally avoided benefits by working toward all of the key objectives simultaneously. Although the resulting balancing act is complex

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the process is usually quite rational. Moreover, the strategy has generally been successful.

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With the failure of negotiations on economic assistance held during August and September, South Korea and Japan have reached an impasse. Seoul, driven in part by national pride, thus far has refused to retreat from its hardline stance. Tokyo favors a cooling-off period, believing that talks can go no further unless Korea is willing to compromise.

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Thailand: Politics Undermine Economic Policies

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Even with a successful visit to the United States, Prime Minister Prem will have little time or incentive to address worrisome economic problems at home. Having lost support from some important quarters, he remains bogged down in political maneuvering. Neither he nor any prospective successor, moreover, is likely to be able to gain support for needed economic policy changes or a new industrialization strategy because they would threaten Thailand's highly protected business interests.

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Preliminary soundings of New Zealand politicians and the electorate indicate a marked uncertainty among voters over how they should vote in the 28 November national elections. Prior to previous elections, trends have usually been apparent by this stage.

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Chronology: Japan

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THE JAPANESE PERSPECTIVE ON DEFENSE: BALANCING COMPETING OBJECTIVES*

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Japan's security policy is designed to achieve a number of well-defined policy objectives, [REDACTED]

[REDACTED] the Japanese have generally avoided making difficult choices, 25X6 hoping instead to maximize total benefits by working toward all of the key objectives simultaneously. Although the resulting balancing act is complex [REDACTED]

[REDACTED] the process is usually quite rational. Moreover, the strategy has generally been successful.

Major Objectives

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In formulating national security policy, the central problem for the Japanese Government is to keep the United States locked into the alliance with Japan without excessive cost to other valued objectives--especially economic security, economic growth, and the continued political supremacy of the conservative Liberal Democratic Party (LDP).

Alliance With the United States. Japanese conservatives are convinced that Japan's military security can be assured only through alliance with the United States, and over time this view has come to enjoy general acceptance in Japan. While Japanese leaders recognize that the potential military threat to Japan from the USSR is immense, they believe that they need not worry too much about it as long as the United States remains strong and closely

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allied with Japan. Indeed, the very success of the alliance in deterring Soviet pressure--to say nothing of aggression--against Japan has made the threat appear less urgent or compelling.

Economic Security. Because Tokyo believes there is little likelihood that the Soviet Union will attack Japan in the foreseeable future, Japan's economic security problems stand out in stark relief and preoccupy the Japanese Government, both on a day-to-day basis and in long-range planning.

Lacking almost all of the fuels and raw materials and many of the agricultural products essential to the operation of a modern industrial economy and the maintenance of a high standard of living, Japan must have access not only to foreign sources of supply for these commodities but also to foreign markets for the manufactured goods it must export to obtain the foreign exchange to pay for critical imports. Thus, although Japan may wax progressively stronger in terms of economic power, it can never escape its economic vulnerability. This fact colors all Japanese thinking on security matters. 25X6

Domestic Economic Growth. When sovereignty was restored in 1952, economic growth was the only objective that seemed at once safe to pursue, worthy of all-out support, and capable of attracting all elements of society. Across a wide range of issues--including military and economic security--government policy has been and continues to be influenced, if not dominated, by a determination to succeed in this endeavor. This has meant that, in allocating resources, the government assigns a higher priority to activities that contribute to the expansion of the economy than to those intended to enhance military power.

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[REDACTED]

Ends and Means

In terms of claims made on scarce national resources and on the attention, energies, and time of Japanese leaders, the objective of military security competes directly with the economic security and economic growth objectives.

[REDACTED] The tensions among the objectives come into clearer focus when the costs and benefits of supporting each are examined.

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Maintaining the Alliance. This has become an increasingly complex task. As Japan's economic power has grown and as the relative position of the United States has declined, US requests that Japan contribute more to its own defense have become more insistent. Japanese leaders are concerned that US displeasure [REDACTED]

[REDACTED] spill over into the economic side of the relationship, and weaken support in the United States for the Mutual Security Treaty. [REDACTED]

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[REDACTED] Within the framework of a long-term, multifaceted effort to consolidate a strong overall bilateral relationship, their principal tactic has been to give way--but only gradually--to US requests that Japan make a greater contribution to its own defense.

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Improvements in the Self-Defense Forces (SDF) must be viewed in this light.

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Promoting Economic Growth. Unfortunately, meeting US expectations entails domestic political and economic costs. Strengthening the SDF is expensive--or at least is perceived as expensive by many Japanese. Money spent on defense is seen as contributing little to the attainment of Japan's long-term economic objectives. On the contrary, it is viewed as a drain, depressing the rate of economic growth and feeding inflation. The Japanese leadership's strong preference is to minimize the military burden on the economy, keep government small, reduce the budget deficit, and proceed with the same strategy for promoting economic growth that has proved so successful in the past. The central element of this strategy calls for concentrating as much capital as possible on the progressive upgrading of Japan's scientific, technological, and industrial capabilities. 25X6

Maximizing Economic Security. Tokyo is convinced that maintaining access to foreign markets and sources of supply can best be assured by means of a constructive but low-key and nonprovocative diplomacy supplemented by a broad array of economic instruments. Japanese officials assign a low probability to the notion that Japan's trade arteries may be seriously threatened by military interdiction. Instead, they believe that threats to Japan's economic security are more likely to take the form of actions by major trading partners that result in the loss of a market or a cutoff in supplies to Japan. Military force--certainly Japanese military force--is generally viewed as irrelevant to dealing with this problem and likely to do more harm than good. Survival, they believe, comes through flexibility and resilience, accommodation and maneuverability, rather than the threat or use of military force.

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Staying in Power: Relations With Outsiders . . .

LDP politicians see the defense issue as one that can only hurt them. [REDACTED]

[REDACTED] Moreover, the domestic constituency for a stronger defense is still relatively weak and in any case 25X6 is already safely within the conservative fold. The un-committed moderate voters [REDACTED]

[REDACTED] are generally opposed to increased defense spending. [REDACTED]

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-- The LDP, which has governed Japan for more than a quarter of a century, is stronger now than it has been for a decade.

-- Factional competition within the ruling party has been muted since last summer, and Prime Minister Zenko Suzuki faces no immediate challenges.

-- The attitude of the public and the opposition parties is becoming more favorable toward the SDF and the Mutual Security Treaty.

Nonetheless, Japanese leaders continue to feel vulnerable on defense-related issues. The drift by the electorate toward a more realistic appreciation of the nation's security requirements has been gradual and accompanied by countercurrents and occasional turbulence. [REDACTED]

. . . and Supporters. Further complicating matters for the Prime Minister is the fact that two of his most important constituencies--the party and the bureaucracy-- 25X6

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are by no means in agreement on how the defense relationship with the United States should be handled. The party chieftains and the moderate center of the LDP are content to see change come slowly and incrementally. At the same time, however, a powerful segment of the LDP is protective of Japan's tie with the United States and inclined to believe that Japan should be more forthcoming in responding to US requests that it assume a larger share of its own defense.

[REDACTED]

The Prime Minister must also referee disputes within the bureaucracy. The Defense Agency and the Foreign Ministry generally recommend that the government respond positively to US requests

[REDACTED]

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Other ministries, particularly the powerful Ministry of Finance, tend to resent--and resist--the redistribution of scarce budgetary resources in favor of defense. These intramural disputes will be particularly intense over the next three years as Suzuki struggles to reduce the huge budget deficits.

[REDACTED]

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Managing Contradictions

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From the perspective of the Japanese Government, it is neither prudent nor necessary to fully subordinate any one of the four objectives discussed above to the other three. All can and should be pursued at the same time. Such an approach has the additional advantage of postponing--often for long periods of time--unpleasant or politically dangerous choices the leadership prefers not to make.

Thus in determining the size of the resources to be allocated to defense and the way in which these resources should be used, the government's first and most important

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problem is to calculate as precisely as possible the magnitude and composition of the defense "package" [REDACTED]

[REDACTED] Such a strategy:

- Serves Japan's essential foreign policy and security interests, as defined by Japan's conservative establishment. 25X6
- Obtains maximum security protection at minimal economic cost, enabling Tokyo to concentrate on promoting economic growth and economic security.
- Limits domestic political costs.

[REDACTED] 25X6

The Japanese concept of "comprehensive security"

[REDACTED] represents an attempt to encompass all of the significant ways in which Japan may be threatened--economically and politically as well as militarily--and all of the countermeasures necessary to deal with these threats. Although the Japanese coined the term only a few years ago and the scope and content of the idea are still being defined, its principal elements were incorporated in Japanese foreign policy years before it was conceptualized in formal terms. [REDACTED]

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The comprehensive security concept has major--and largely negative--implications for US efforts to persuade the Japanese to increase their spending on defense. Military security is subsumed under the broader rubric of comprehensive security and is viewed with less urgency than other, principally economic, security problems. Moreover, the key element in Tokyo's strategy for satisfying Japan's military security needs is the Mutual Security Treaty, not the SDF, [REDACTED]

[REDACTED] In this context, the SDF becomes only one--albeit important--policy instrument among many available to the government as it works to satisfy all of Japan's security requirements.

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In meeting US requests for increased attention to military security, Japanese leaders increasingly are using the comprehensive security doctrine to build a case that Japan actually is taking steps to improve its security and contribute to strengthening the West. That it is increasing investments in the SDF only gradually is, they contend, less important than other measures of Japanese activism, such as an expanded foreign aid program or support for ASEAN. [REDACTED]

[REDACTED] it also appears to be true that they sincerely believe in the merits of this more comprehensive approach to their country's security problems.

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SOUTH KOREA - JAPAN: AT LOGGERHEADS OVER AID

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With the failure of negotiations on economic assistance held during August and September, South Korea and Japan have reached an impasse. Seoul, driven in part by national pride, thus far has refused to retreat from its hardline stance. Tokyo favors a cooling-off period, believing that talks can go no further unless Korea is willing to compromise.

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The View From Seoul

President Chun is asking Japan to provide \$6 billion in low-interest loans over the next five years, a massive increase in previous aid levels that average only \$100 million a year. Even more contentious than the amount of aid is the rationale for it. Chun wants Japan to acknowledge the North Korean threat to peace on the Korean peninsula and the role of South Korea's defense establishment in maintaining regional security in Northeast Asia.

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Seoul, which spends 6 percent of its GNP on defense, views its efforts as benefiting Japan by allowing the Japanese to invest in economic growth rather than armaments. Chun believes that Japan should recognize this South Korean contribution and that economic aid should be linked publicly with that defense effort. Seoul views the Japanese refusal either to provide the money or to link economic assistance with security as a reversal of Japanese commitments made in the US-Japan summit joint communique earlier this year and reaffirmed by Japan at the Ottawa Summit.

Several factors have been instrumental in persuading Chun to adopt his present tack. Most important, as a result of the US - South Korea summit meeting earlier this year, Chun believes that President Reagan shares his perception that the Japanese must make a greater contribution to regional security. Chun also appears to believe that Washington sees South Korea as playing a vital

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role in Northeast Asian regional security. Chun probably even hoped at one time that if a showdown came, the United States would pressure the Japanese to increase their aid to South Korea. This perception may have been abetted by remarks by some US officials in late summer suggesting that Japan should make economic contributions to the stability of Korea. Perhaps contrary to Chun's expectations, the US Government has not weighed in on the South Korean side and is keeping out of the controversy. [redacted]

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Underlying Chun's hardline stance is the traditional enmity between the two countries [redacted]

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[redacted] Chun [redacted] seems to favor anti-Japanese advisers in his entourage and to ignore the voices of moderation in the Foreign Ministry. Chun's simplistic approach to international issues has contributed to his unwillingness to compromise on what are to him basic matters of principle. [redacted]

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Informal Channels

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Although formal talks have foundered, Seoul is still attempting to influence the Japanese through informal channels. The government has even considered inviting a number of influential Japanese politicians--including former Prime Ministers Kishi, Tanaka, and Fukuda--with the aim of influencing the Suzuki government. [redacted]

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Chun's uncompromising [redacted] approach, however, may be costing him support among pro-South Korean Japanese Diet members. His deliberately "cool and correct" attitude toward the Japanese parliamentarians who visited Seoul last month for the general session of the ROK-Japan Parliamentarians Union may have backfired. The Japanese delegation left Seoul with a decidedly cooler attitude toward South Korea than when they came. Chun had:

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- Instructed the South Korean delegation to speak Korean and use interpreters during official meetings and private contacts, even though many Korean officials speak fluent Japanese.
- Directed that no official entertainment be provided for the Japanese visitors, a departure

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from past practice. Businessmen, knowing the President's attitude, followed suit and did not provide entertainment funds as they had in the past. []

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Chun's Domestic Considerations

Chun's adamant stand against the Japanese has probably helped bolster his popularity at home. The Korean's natural antipathy toward Japan and the government's deliberate censoring of the press to eliminate any balanced discussion of the Japanese point of view ensure that the public will continue to support the government's policy. If Chun thought it necessary, he probably would not hesitate to mobilize "popular" protests against Japanese commercial and diplomatic interests in Korea. Chun is angered by the Japanese stand and reportedly has considered options ranging from recalling the South Korean Ambassador from Tokyo to breaking off diplomatic relations or firing on a Japanese ship that might venture near the disputed 25X1 land of Tokto in the sea of Japan. []

Chun probably would prefer to resolve the issue through negotiations, which would enhance his image as a statesman at home and abroad. Moreover, he must take care not to inflame the passions of militant students, who almost certainly would seize on Japanese "intransigence" as an excuse to foment campus turmoil. Such anti-Japanese demonstrations would quickly become antigovernment and could lead to further student unrest. []

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Because he has invested so much political capital in his demands, however, Chun has limited his options. If he is forced to pare down his demands to more realistic proportions, he must find scapegoats, the most logical of whom would be the Korean Ambassador to Japan and Foreign Minister Lho and his associates in the Foreign Ministry. []

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The Japanese Perspective

Despite present difficulties, the Japanese are sincerely committed to improving relations with Korea and contributing to its economic development. Prime Minister Suzuki promised during meetings with President Reagan earlier this year that Japan would increase aid to Seoul,

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and in an address on 4 September, he called for a continued cooperative relationship between South Korea and Japan in the "economic, cultural, and other fields." In addition, the government is quietly working to create a more favorable public attitude toward aid for Korea, and a consensus for granting increased assistance to Seoul is developing in the business community. [REDACTED]

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The Defense Angle

Tokyo does not intend to renege on its commitment to help South Korea, but for both domestic political and economic reasons it cannot accept either the justification or the magnitude of Seoul's request. Although Suzuki stated during his talks with Reagan that the maintenance of peace on the Korean peninsula was important for the security of Asia, including Japan, he emphasized that his country could not grant military assistance. The Japanese aid program, with its philosophic goal focused on human needs, is designed to raise standards of living and contribute to nation building. Tokyo cannot accept the direct linkage between Japanese aid and Korea's defense needs that Seoul demands. [REDACTED]

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[REDACTED]

During an appearance before the upper house Foreign Affairs Committee, Foreign Minister Sonoda also expressed concern that acquiescence in Korea's demands could begin movement toward a military alliance type of relationship among Korea, the United States, and Japan, which would be totally unacceptable domestically. Many politicians, including conservatives, are leery of any overt shift toward Seoul at the expense of P'yongyang, believing that isolating North Korea will only escalate tension between North and South. The Communists and Socialists have already declared that acceptance of Seoul's request would endanger security in the Far East. [REDACTED]

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Furthermore, were Japan to grant assistance as a quid pro quo for Korea's contribution to regional security, other nations could also press for dramatically increased assistance on the same grounds. Japanese officials are fully aware of the defense effort being made by Seoul and of its effect on the South Korean economy. The only way Tokyo can publicly justify any association between aid and security matters, however, is in terms of its comprehensive security policy. ☐ That policy focuses on granting aid to improve socioeconomic conditions, which will in turn increase stability in a given area and make it less vulnerable to internal unrest that Communist forces might exploit. ☐ 25X1

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The Economic Angle

If Korea were to back off from its insistence on the defense linkage, Japan would still have economic reasons for not responding favorably to its request:

- The amount demanded by South Korea is simply too high. It would represent about 25 percent of Japan's total projected aid and 60 percent of aid allocated to Asia over the next five years. Japanese officials insist that South Korea must take into account Japan's need to maintain a balance in the assistance it grants to South Korea, China, and Southeast Asia.
- Japan's budget is compiled yearly, and aid is thus approved yearly, on a project-by-project basis. To make the firm, five-year lump-sum commitment that South Korea wants would be highly unorthodox.
- Faced with economic problems of its own due to heavy reliance on deficit spending, the Japanese Government is currently pursuing an austerity program, and an enormous increase in aid for South Korea is just not in the cards. ☐ 25X1

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What Next?

The attitude of Japanese officials as they view the assistance issue now is a combination of relief and frustration. They are relieved that although no substantive progress was made toward resolving the impasse at the ministerials, emotions were held in check and the two sides were able to agree at the last minute on a joint press release. This included a statement on Japan's basic aid policy and completely separated treatment of economic cooperation from that of peace and stability on the Korean peninsula. Tokyo is also relieved that the talks did not end in a complete rupture [redacted]

[redacted] and that negotiations will continue. The Japanese have tried to explain to the Koreans that quick, political decisions are not made in Japan. Much spadework must be done first, and the agreed-upon, working-level negotiations will provide an opportunity for that preparatory work. The Japanese also welcome the continuance in office of Foreign Minister Lho, whom they consider a proponent of moderation in the Korean Government. [redacted]

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The Japanese are frustrated by their counterparts' intransigence, however, and believe that no real progress can be made until the official Korean attitude changes. They view a cooling-off period as necessary to provide time for that change. They hope that the Koreans will develop some understanding of basic Japanese economic and political realities and that a face-saving compromise will be possible. The Japanese have demonstrated their skill at putting together creative aid packages that include both private and public assistance, and they could probably do so for Korea if it showed some flexibility--though not in the amount Seoul has requested. [redacted]

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A quick solution to the aid dispute is unlikely. Although Japanese officials agree that the ministerial and the Parliamentarians Union meetings provided a valuable opportunity for both sides to gain a better understanding of the other's positions, the two sides remain far apart. The Diet session, expected to run until mid-November, and the Cabinet shuffle to follow will make ministerial-level talks difficult for the Japanese this year. Working-level negotiations could be scheduled, but the intense nationalism of many of the Korean negotiators

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and their lack of experience in dealing with the Japanese will handicap those talks. Japan is determined that it can handle the dispute on a strictly bilateral basis, however.

[REDACTED]

[REDACTED]

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Prospects

Chun wants to resolve the economic assistance issue by the end of the year. He is confident that he can conclude the negotiations to Seoul's satisfaction during a summit meeting with Suzuki. Suzuki, in a conciliatory gesture toward South Korea, explicitly stated in a speech in early September that Japan values "the defense efforts of South Korea," and he acknowledged the special historical relationship between Japan and South Korea, but he has said repeatedly that he will not meet with Chun until the aid issue is resolved. Without the summit

[REDACTED]

[REDACTED] Chun may have to back off from some of his demands. Indeed, there already are signs that the Blue House may be softening its confrontational approach:

- Korean authorities quickly released a Japanese fishing boat that had been seized after it entered Korean waters.

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-- The government-controlled press has been cautiously optimistic on the aid issue, perhaps indicating acquiescence in the Japanese desire for a "cooling-off period." [REDACTED]

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Until the aid issue can be resolved, other problems in the relationship--including fishery disputes, the 600,000 Korean residents in Japan, and jurisdiction over the island of Tokto--will have to take a back seat. [REDACTED]

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THAILAND: POLITICS UNDERMINE ECONOMIC POLICIES []

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During his official visit to Washington, Prime Minister Prem will look for US support on both political and economic issues in order to bolster his faltering image at home. Even with a successful visit, however, Prem will have little time or incentive to address worrisome economic problems at home. Having lost support from some important quarters, he remains bogged down in political maneuvering. Neither he nor any prospective successor, moreover, is likely to be able to gain support for needed economic policy changes or a new industrialization strategy because they would threaten Thailand's highly protected business interests. []

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Thailand's current good economic performance allows Prem some breathing room. GNP growth will be faster this year, aided by a rebound in agricultural output, and inflation is slowing slightly. The stabilizing of world oil prices and the onset of domestic natural gas production will prevent further worsening of the \$2.4 billion current account deficit. []

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Prem's Rocky Road

Prem's visit comes at a time when his government is drastically weakened. A minor cabinet reshuffle in January was followed by political controversy over negotiations for oil imports from Saudi Arabia, which resulted in a major reshuffle in March and led to the resignation of the government's chief economic policy-maker, Deputy Prime Minister Boonchu. Subsequently, a group of young military officers attempted the abortive "April Fool's Day Coup," which was quickly suppressed but left a legacy of uncertainty over the country's direction and its policies. []

Since the coup attempt, the government has survived several no-confidence votes in parliament, but support for Prem is weak. His strongest backer has been the

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King, who, in a break with the monarchy's tradition of remaining aloof from politics, tilted toward Prem during the April coup and saved his government. Recent developments suggest, however, that Palace support for Prem is weakening in light of his lackluster performance. The combination of waning support from the throne and the recent election victory of former Prime Minister Kriangsak could seriously threaten the Prem government. []

The Prime Minister is increasingly regarded as indecisive, politically inept, and not possessing the leadership qualities required to address Thailand's current political and economic ills. Indeed, one of the aims of his visit to Washington is to dispel this image. Given the country's economic and political problems, however, it is questionable if any other figure on the current political scene could do any better. Prem, who took office in March 1980, entered 1981 facing serious inflation, energy, and balance-of-payments problems, compounded by an unsettled domestic political situation. Under pressure from the World Bank, Thailand's largest international creditor, the Prem government enacted a series of politically risky utility and oil price increases to slow the growth of domestic energy consumption and thus the deterioration in the balance of payments. []

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Since Prem will be mired down in political maneuvering between now and the end of the year, he will probably avoid any risky economic policy initiatives as long as the economic situation does not deteriorate drastically. Prem has already had to make several politically volatile decisions since entering office, the most recent one concerning his own extension as Army Commander in Chief. In a move probably calculated to bolster support from the Army, Prem relinquished this position in August, two months ahead of schedule, and appointed a non-controversial officer, Gen. Prayuth Charumani, as his successor. []

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Developments in the Problem Areas

The Prem government made no headway against inflation in 1980 as the impact of higher oil import costs, drought-induced increases in food prices, higher prices paid to farmers for rice and sugar, and wage increases pushed

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inflation to 20 percent, up from 15 percent in 1979 and an average of less than 8 percent annually during 1975-78. []

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To help ease the burden on urban consumers, the government is requiring rice exporters to supply the government with low-quality rice--equivalent to 60 percent of their exports--which it in turn sells to the poor at a small markup. Another Prem proposal--low-cost consumer goods retail outlets--has fallen by the wayside. Under this plan, the government hoped to reduce inflation by enlisting the aid of Thai business firms to help produce and market a broad range of consumer necessities that would have been sold below retail prices. The project was not promoted vigorously enough to gain widespread acceptance and met strong resistance from well-entrenched business interests allied with the military.

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The Prem government seems to be faring better in the external sector. Earlier this year, Bangkok expected the current account to worsen from 1980's \$2.4 billion deficit, largely as a result of higher oil import prices. Since the mid-1970s, the rising cost of oil imports has been the major cause of the steady deterioration in the current account, pushing the deficit from about \$100 million in 1974 past the \$2 billion mark for the first time in 1979. []

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So far in 1981, however, Thailand is benefiting from the world oil glut and domestic conservation measures implemented during the past year. Up until now Thailand has relied on oil imports to supply 80 to 85 percent of its energy requirements. Following the attempt by former Prime Minister Kriangsak to raise domestic energy prices by nearly 100 percent in one step in October 1979, the Prem government has succeeded in gaining public acceptance of a series of periodic utility and oil-price increases mandated by international financial institutions in return for development credits and balance-of-payments support. Since coming to power, Prem has raised utility prices an average of 20 percent three times. He kept his promise (when he first took office) not to raise the prices of petroleum products in 1980 but increased them 25 percent in January 1981. Although Prem has not indicated if more increases are

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in the offing later this year, the World Bank concluded earlier this year that the government had made substantial progress toward achieving realistic domestic oil prices. More recently, the IMF supported the Bank's optimistic assessment and agreed to a two-year \$940-million standby credit. In return, Prem agreed to tighten fiscal and monetary policies and to enact measures aimed at boosting agricultural productivity and shifting industrial development from an emphasis on import substitution to export promotion. [REDACTED]

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Export growth has been disappointing this year and is counteracting the benefits of stable oil prices in the foreign trade accounts. Bangkok's earlier hopes for a 25-percent gain in exports over 1980 dimmed, and export growth this year is likely to be about 16 percent. Sluggish export growth has resulted largely from weak foreign demand for traditional commodities such as rice, tin, and rubber, and, in the case of tapioca, from restrictions imposed by the EC. Sugar exports were down 43 percent in the first quarter, partly because of restrictions imposed by the Prem government to force refiners to supply sugar to the domestic market. The shortfall in export earnings led Bangkok to request, and receive, \$210 million from the IMF's compensatory financing facility. [REDACTED]

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The poor export performance at one point earlier this year produced an internal debate over the need for import restrictions to stem the deterioration in the current account. Instead, at the urging of the IMF, the government has devalued the baht to aid the country's flagging exports. A 1-percent devaluation last May to counteract the appreciation of the baht, which is tied to the US dollar, was generally conceded as insufficient to do the job. Despite the opposition of domestic Thai business interests to any further devaluation and some opposition within the Central Bank, Bangkok announced an 8.7-percent devaluation in July. Prem was able to deflect most of the ensuing criticism by blaming the IMF for the move. [REDACTED]

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Current Outlook

While the economy could grow 6.5 percent in 1981 largely as a result of an improved agricultural

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performance, persistent political disarray has created an environment that is discouraging investment and hindering longer range government decisionmaking on important programs. Increased rainfall boosted the 1980/81 rice harvest 12 percent over the drought-stricken 1979/80 crop and is providing sufficient water supplies to assure normal off-season irrigation this year. As a result of a likely slowdown in the escalation of domestic energy prices and improved agricultural output, inflation probably will ease to about 17 percent this year. []

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The economy will also get a boost from the onset of natural gas production. Construction of the 595-kilometer pipeline to bring gas ashore from the Gulf of Thailand was completed on schedule last month. At current prices and an initial production rate of about 30,000 b/d oil equivalent, the gas will save Thailand about \$350 million annually in foreign exchange. []

Bangkok is also considering exporting LNG, which could yield potential sales of \$1 billion yearly by the mid-1980s. Since Bangkok announced its interest last July, Texas Pacific and Japan's Mitsui Company have proposed a \$3.5-billion joint venture LNG plant and tanker system to support sales to Japan. Texas Pacific is one of two US firms developing the offshore fields, which have reserves estimated at 10-11 trillion cubic feet. The project may not materialize at all if the government fails to give investors guarantees that Thailand will allow the gas to be exported. A number of senior government officials are questioning the project on the grounds that the gas may be needed domestically. With the Prem government as weak as it is, knowledgeable political observers in Bangkok doubt that it will be able to provide the necessary export guarantees. []

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Beyond 1981

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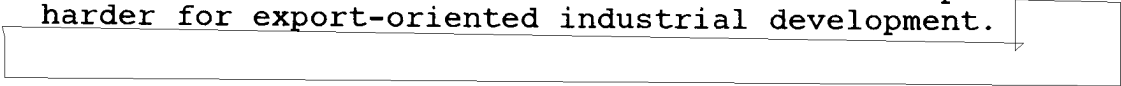
Even if Prem remains in office, he is an unlikely leader to build a consensus among the Thai military and business elite to take the risks involved in trying to replace inefficient import-substituting industries with more competitive export-oriented operations. Any prospective successor is also unlikely to be able to unite the faction-ridden segments of Thai politics in

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an effort to restructure the economy and reduce its vulnerability to fluctuations in commodity exports. Persistent pressure from the IMF and the World Bank should result in gradual structural changes in the economy, but the results will be barely visible within the next few years. In the meantime, the country's strong agricultural resource base will continue to cushion Thai politicians from their failure to push harder for export-oriented industrial development.



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NEW ZEALAND: ELECTION SOUNDINGS

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Preliminary soundings of New Zealand politicians and the electorate indicate a marked uncertainty among voters over how they should vote in the 28 November national elections. Prior to previous elections, trends have usually been apparent by this stage. At stake are the 92 seats of the unicameral Parliament, in which Prime Minister Muldoon's National Party holds 49 seats, Labor 41, and Social Credit 2.

For the past two months, the New Zealanders' attention to political issues has been diverted by unprecedented disturbances over the contentious visit of the South African national rugby team, the Springboks. The rugby matches are now over, and despite the deep divisions they caused, the Springbok tour does not appear to be an important election issue.

The election will be decided on economic issues. The concerns of the voters are clear--taxation, inflation, and unemployment. Despite widespread disappointment over the government's performance, the opposition Labor Party has not made a convincing case that it can do better. Even some trade union officials, who would be expected to support Labor, admit Labor does not offer an attractive alternative.

Although National's economic program is faulted for providing too few jobs, Labor's proposals are seen as grandiose and prohibitively costly. In fact, National's claim that Labor's "utopian" schemes for greater assistance to medium-size business and agricultural expansion are beyond the country's financial means seems to be its most effective argument against Labor.

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Some of the dissatisfaction with the two major parties has benefited the Social Credit Party, which until now has espoused little more than promises of easy credit. Social Credit is trying to come up with a broader program by advocating the growth of small and medium-size businesses and employee share ownership of larger firms. This third party may take a few seats from National in farming areas and attract enough votes from Labor in Auckland to give National some seats from traditional Labor constituencies. Social Credit's appeal is not sufficiently widespread, however, for it to gain the balance of power in Parliament.

The traditional swing against the government in New Zealand elections and the National Party's small parliamentary majority would appear to give Labor hope. Labor, however, has a penchant for not capitalizing on its advantages. A recent example was Rowling's ill-timed proposal for liberalizing immigration regulations for Pacific islanders, an idea that made even Labor liberals wince.

[REDACTED]

It is likely that Labor will make more statements at variance with the public mood, offsetting the electorate's disenchantment with the Muldoon government.

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CHRONOLOGY: JAPAN

1-30 September 1981

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I. DOMESTIC POLITICAL EVENTSFiscal Year 1982 Budget

8 September: Government ministries and agencies submit budget requests for FY1982; total is about \$215 billion, a 5.7-percent increase over the current fiscal year. (Japan's fiscal year starts 1 April.)

Suzuki Views Northern Territories

9-10 September: Prime Minister Suzuki, accompanied by Taro Nakayama, director general of the Prime Minister's Office; Kenzaburo Hara, chief of the Hokkaido Development Agency; and Ichiro Nakagawa, chief of the Science and Technology Agency, visits Hokkaido to observe the four Soviet-held islands known as the Northern Territories. He is the first Japanese Prime Minister to make such a tour of the islands, which are claimed by Japan but occupied by the Soviet Union since 1945. His trip is intended to draw attention at home and abroad to Japan's claim to the area.

Suzuki Visits Okinawa

14-15 September: Prime Minister Suzuki is the first prime minister to visit Okinawa officially since Okinawa's reversion to Japan in 1972. His trip includes a one-hour aerial tour of the island.

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Extraordinary Diet Session

24 September: The major topic of the special session, which opens today and is expected to run until mid-November, will be Suzuki's administrative reform package.

II. FOREIGN RELATIONSJapan-China

7-10 September: Susumu Nikaido, chairman of the Executive Council of the LDP, visits China at the invitation of the China-Japan Friendship Association. He meets with Chinese Communist Vice Chairman Deng, Vice Premier Gu Mu, and other party officials to discuss Japan's proposal for reviving the suspended Baoshan steelworks and first-phase construction of the Daqing petrochemical combine. China accepts in principle Japan's offer of \$1.3 billion in long-term, low-interest loans.

Japan - South Korea

9 September: Restrictions on visas issued to South Koreans visiting Japan are eased drastically. Visas will now be issued as quickly as the day after filing for those Koreans who wish to visit Japan for a period of less than 90 days for sightseeing, inspection, and short-term business trips.

10-11 September: Foreign Minister Sonoda and five other Cabinet ministers are in Seoul to attend the first South Korea - Japan Ministerial Conference to be held since 1978. The two sides fail again to agree on a Korean request for \$6 billion in economic aid, but agree to continue negotiations.

15-17 September: Ken Yasui, chairman of the Japan - South Korean Parliamentarians Union (RJPU) and a former president of the House of Councilors, heads a 59-member delegation of Dietmen attending the RJPU meeting in Seoul. The talks center on the security situation on the Korean peninsula and Seoul's demand for economic assistance from Japan.

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III. FOREIGN VISITORS

2-4 September: Senator John Glenn attends the Shimoda Conference, along with prominent Japanese and American politicians, businessmen, and scholars. Attendees discuss bilateral relations and international problems, including the threat posed by the Soviet Union. During Glenn's visit he calls on Defense Agency Director General Joji Omura and urges him to speed up Japan's defense buildup.

14-18 September: Egyptian Deputy Prime Minister Ali visits Japan to pave the way for President Sadat's visit in November and to discuss the Middle East and Asian situations.

26-29 September: Deputy Secretary of Defense Carlucci makes an official visit to Japan. He discusses Japan's defense capability with Foreign Minister Sonoda.

IV. AGREEMENTS

3 September: Japan and China sign in Tokyo an agreement for cooperation on the peaceful uses of nuclear energy.

8 September: Japan recognizes the new military regime in the Central African Republic.

9 September: An agreement is reached in Niger on Japanese uranium exploration in the Anou Makaren region and in a national reserve south of the Arlit and Akouta deposits. Ground radiation surveys and other exploration will begin in October, but mining on a commercial basis is probably 10 years away.

11 September: Japan announces its intention to recognize Belize when it becomes independent on 21 September. This will be the 163rd nation Japan has recognized.

16 September: Volkswagen announces an agreement with Nissan Motors of Japan for joint production of

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60,000 Volkswagen sedans annually in Japan. Production will begin in October 1983. This is the first such joint agreement between a Japanese automaker and a Western partner.

17 September: North Korea refuses to extend a provisional fishery arrangement with Japan, which is to expire next June. The nongovernmental agreement allows Japanese fishermen to operate within North Korea's 200-mile zone, but outside a 50-mile military zone. North Korean officials have claimed that Japanese fishermen have crossed into the military zone at night in violation of the agreement.

22 September: President Michio Takeuchi of the Export-Import Bank of Japan signs a protocol with Soviet Deputy Foreign Trade Minister Viktor M. Ivanov in Tokyo on the conditions of a bank loan to be provided for a natural gas pipeline in western Siberia. The loan, about \$870 million, is expected to be repaid over eight years beginning in 1985 at an annual interest of 7.8 percent, or lower than the minimum interest of 8.5 percent on loans to the Soviet Union set by the Organization for Economic Cooperation and Development. The Bank also signs a protocol with Ivanov on a loan of about \$130 million for a project to produce 180,000 tons of butadiene annually.

24 September: The Export-Import Bank of Japan agrees to lend China up to \$69.8 million to help finance an oil development project in the western part of Bohai Bay in the Yellow Sea. This loan goes back to a memorandum signed by China and Japan in May 1979 whereby Japan is to lend China a total of \$1.8 billion for the development of energy sources in China.

V. GOVERNMENTAL APPOINTMENTS

1 September: Hisahiko Okazaki, counselor of the Defense Agency, is appointed minister at the embassy in the United States.

11 September: The following appointments are announced:

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-- Deputy Foreign Minister Yasue Katori as Ambassador to China. Kensuke Yanagiya, Deputy Vice Minister for Administration, will replace him as Deputy Foreign Minister.

-- Eikichi Hara, former Ambassador to Malaysia, as Ambassador to India.

18 September: Hiroshi Nagasaki, Ambassador to Peru, is appointed Ambassador to Colombia.

VI. FOREIGN TRAVEL

4 September: A delegation led by Tokuma Utsunomiya, an independent member of the House of Councilors, arrives in P'yongyang, North Korea.

4 September: A delegation of the Diet Afro-Asian Study Group, led by its General Secretary Hagime Ishii, arrives in Hanoi at the invitation of the Vietnam Committee for Solidarity and Friendship With Other Peoples.

8-22 September: Komeito Chairman Takeiri heads a 25-member delegation to China for a tour of major cities and for meetings with leading Chinese officials.

16-25 September: Foreign Minister Sonoda attends the 36th session of the UN General Assembly. He meets with Secretary of State Haig, Chinese Vice Foreign Minister Zhang Wenjin, UN Secretary General Waldheim, and Soviet Minister of Foreign Affairs Gromyko.

26 September: Ryosaku Sasaki, chairman of the Democratic Socialist Party, arrives in the United States for a 10-day visit, during which he will hold talks with Congressional leaders and other high-level US officials.

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